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August 8, 2003

VIA FEDERAL EXPRESS

[redacted]

Re: Multi-Format, Inc. -- U.S. Patent No. 38,079

Dear Sir or Madam:

We have previously written to your company regarding Multi-Format, Inc.'s U.S. Patent No. RE 38,079. As we stated in our prior correspondence, we are now contacting your company to discuss the licensing of Multi-Format's patent.

Although Multi-Format has filed a lawsuit against your company (case number CV-03-5660 LGB (RZx) filed August 8 in the United States District Court for the Central District of California), Multi-Format is not formally serving your company with the Summons and Complaint until after you have had a period of time (until October 15, 2003) within which to consider Multi-Format's claims and Multi-Format's business proposals. Multi-Format prefers a business resolution to litigation.

We encourage you to review the enclosed materials:

1. Brochure entitled *Multi-Format, Inc. -- DVD, DVD Player, and Personal Computer Licensing Program* with attached Complaint;
2. CD-ROM containing the file histories and references regarding U.S. Patent Nos. 5,537,157 and RE 38,079;
3. Proposed DVD Retailer Licensing Agreement;
4. Proposed DVD Player Retailer Licensing Agreement; and
5. Proposed Personal Computer Licensing Agreement.

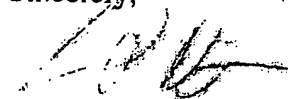
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The enclosed Brochure is intended to explain Multi-Format's patents, the infringement by your company, and Multi-Format's proposed business resolution.

We look forward to discussing this matter with you. Please feel free to contact Rod Dorman, Jack Smith, or me if you have any questions.

Sincerely,



Alan P. Block
for Hennigan, Bennett & Dorman LLP

APB:apb

Enclosures

MULTI-FORMAT, INC.

DVD, DVD PLAYER, AND PERSONAL COMPUTER LICENSING PROGRAM

AUGUST 8, 2003

PRESENTED BY:

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SUMMARY

MULTI-FORMAT, INC. -- DVD LICENSING PROGRAM

- Multi-Format is the owner of U.S. Patent No. RE 38,079 (the '079 patent). The '079 patent covers, among other things, a system and method for storing video programs in a format having a frame rate of substantially 24 frames per second (fps) on an optical disc (DVD) and for converting the video program stored on the disc into an output format, such as NTSC, for viewing. DVD discs store video programs in a format having a frame rate of substantially 24 fps and DVD players are required to convert the program to an NTSC format for viewing. The '079 patent is therefore required to practice DVD technology. For your convenience, a copy of the '079 patent is attached to this Brochure starting at page 11 of tab 1.
- The '079 patent also covers a system and method for receiving a video program via the Internet having a frame rate of substantially 24 fps, for storing the video program on a hard disk in an intermediate format having a frame rate of substantially 24 fps, and for converting the video program into an output format for viewing on the computer monitor.
- Multi-Format is contacting you, because your company sells to consumers: (1) pre-recorded DVD discs; (2) DVD players; (3) personal computers equipped with DVD drives; and/or (4) personal computers which are not equipped with a DVD drive but which have the ability to download video programs via the Internet. By selling these products to consumers with your company's knowledge of Multi-Format's '079 patent and with your company's advertisements and instructions to consumers, your company is infringing at least claims 14 and 20 of the '079 patent under the doctrine of contributory infringement and/or inducement.
- Multi-Format has filed, but not yet formally served, a lawsuit in the Central District of California against Amazon.com, Inc., Best Buy, Inc., Circuit City, Inc., Costco, Inc., Fry's, K-Mart, Inc., Radio Shack, Inc., Sears Roebuck & Co., Target, Inc., and Wal-Mart, Inc. (Case No. CV 03-5660 LGB (RZx)). For your convenience, a copy of Multi-Format's Complaint is attached hereto as tab 1.

- Multi-Format prefers a business resolution to this matter. Multi-Format is proposing to all retailers separate patent licenses at the following royalty rates:
 - 3 cents per DVD disc sold and 2 cents per DVD disc rented in the United States;
 - \$2.00 per DVD player sold in the United States;
 - \$3.00 for each personal computer equipped with a DVD drive sold in the United States; and
 - \$2.00 for each personal computer sold in the United States not equipped with a DVD drive but having the ability to download video programs via the Internet.
- Multi-Format will not formally serve its lawsuit on any defendant until after October 15, 2003. This is to provide each defendant with a reasonable time period to conduct due diligence on Multi-Format's claims and to engage in licensing negotiations. For your convenience, Multi-Format is enclosing a digital copy on CD-ROM of the file history of the '079 patent and all prior art before the Patent Office. Further, Multi-Format's attorneys are available to answer any questions that you may have.
- If patent licenses are not executed by October 15, 2003 and Multi-Format is required to engage in litigation to seek injunctive relief and thereby compel the execution of patent licenses, the royalty rates for such licenses will be materially greater than those negotiated prior to active litigation.

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WHY IS MULTI-FORMAT CONTACTING MY COMPANY?

Your company is in the business of selling DVD video discs (which store video content at a frame rate of substantially 24 frames per second (fps)) with the purpose and intent that those DVD discs be purchased by a consumer who will view the program stored on the DVD in an NTSC (or PAL) format using a DVD player.

Your company is also in the business of selling DVD players, which are required to play back a DVD, because they convert the video program stored on a DVD to an output program in a format different from that stored on the DVD disc, e.g., NTSC. Your company advertises and instructs purchasers that they can use the DVD player to play back DVD discs.

Your company is also in the business of selling personal computers equipped with DVD drives. Like the DVD players described above, the personal computers convert the video program stored on a DVD to a output program in a format different from that stored on the DVD disc, e.g., PC monitor in VGA out or DVI out. Your company advertises and instructs purchasers that they can use the personal computer with the DVD drive to play back DVD discs.

Your company is also in the business of selling personal computers which are not equipped with a DVD drive but which have the ability to download video programs via the Internet. Video programs having a frame rate of substantially 24 fps are regularly downloaded via the Internet and stored on the hard disk drive of the computer. The format of the video program is converted from the hard disk drive to a PC monitor in VGA out or DVI out format for viewing. Your company advertises and instructs users that they can use the personal computer to download, store, and view video programs via the Internet.

Each of the devices described above, when used by an end-user, meets the limitations of at least claims 14 and 20 of the '079 patent.

In general, Multi-Format's U.S. Patent No. RE 38,079 covers the method and system used to store and view a video program. Multi-Format filed the original application for the '079 patent on August 30, 1994, well before the DVD technology currently in use had been promulgated and implemented.

According to claims of the '079 patent, video at a frame rate of substantially 24 fps (without any redundant fields or frames) is stored on

a removable high capacity storage medium in an intermediate format. This video is then accessed from the storage medium and is converted to an output format, such as NTSC, having a frame rate greater than or equal to 24 fps for viewing.

The high capacity storage medium described in the '079 patent is the DVD disc. The DVD disc stores film-originated programming at a frame rate of substantially 24 fps. The DVD disc is an essential part of the claims of the '079 patent and has no substantial non-infringing uses -- DVD's sold in the United States are meant to be viewed in NTSC video at substantially 30 fps using a DVD player. Therefore, any sale of a DVD disc contributes to the end-user purchaser's activities in performing the method steps and using the claimed system elements used to store and view such video programs. The '079 patent is thus essential to the sales of DVD discs.

DVD players, both sold alone and as DVD drives in a personal computer, are required to access the video program stored on the DVD disc and to manipulate or convert the program to another format for output. DVD players and personal computers are advertised, and users are instructed, to use the players/drives to view the programs stored on DVD discs.

Similarly, personal computers equipped with DVD drives and even those that are not equipped with a DVD drive are capable of downloading video programs having a frame rate of substantially 24 fps via the Internet, storing the video program on the computer's hard disk drive, and accessing and converting the program to an output format.

A more detailed demonstration as to how claims 14 and 20 of the '079 patent cover the sales of pre-recorded DVD discs, cover the sales of DVD players, cover the sales of personal computers equipped with DVD drives, and cover the sales of personal computers which are not equipped with a DVD drive but which have the ability to download video programs via the Internet is included later in this brochure.

In order for your company to lawfully continue selling pre-recorded DVD and other format video discs, DVD players, personal computers equipped with a DVD drive, and personal computers which are not equipped with a DVD drive but which have the ability to download video programs via the Internet, your company will need to obtain patent licenses from Multi-Format.

MULTI-FORMAT'S PENDING LITIGATION

On August 8, 2003, Multi-Format filed a patent infringement lawsuit in the Central District of California (Case No. CV 03-5660 LGB (RZx)) naming as defendants Amazon.com, Inc., Best Buy, Inc., Circuit City, Inc., Costco, Inc., Frys, K-Mart, Inc., Radio Shack, Inc., Sears Roebuck & Co., Target, Inc., and Wal-Mart, Inc. A copy of the Complaint is enclosed for your review.

Multi-Format has not yet formally served its Summons and Complaint against the named Defendants and will not do so until after October 15, 2003. Multi-Format is proceeding in this manner to provide all retailers who are receiving this information and proposed License Agreement with an opportunity to conduct any due diligence that it believes necessary to determine whether to execute a License Agreement or proceed with the lawsuit. To assist you with your due diligence, Multi-Format is enclosing a digital copy on CD-ROM of the file history of the '079 patent and all prior art before the Patent Examiner. Multi-Format's attorneys are also available to answer any questions that you may have.

As discussed in more detail below, Multi-Format is making a patent license available to you and is proposing very favorable licensing terms:

- 3 cents per DVD disc sold and 2 cents per DVD disc rented in the United States;
- \$2.00 per DVD player sold in the United States;
- \$3.00 for each personal computer equipped with a DVD drive sold in the United States; and
- \$2.00 for each personal computer sold in the United States not equipped with a DVD drive but having the ability to download video programs via the Internet.

Pre-litigation, negotiated licensing rates will not be available to you in the event Multi-Format is required to actively litigate its patent infringement claims against you.

MULTI-FORMAT'S U.S. PATENT NO. RE 38,079
IS A PIONEERING PATENT

Although DVD technology is now a mature technology that is being widely used by movie studios, consumer electronic manufacturers, and consumers throughout the United States, this was not the case in the summer of 1994. At that time, DVD, and its technical standards, were unknown. Equally unknown at that time was the concept of storing an intermediate production format of a video program in a format having a frame rate of 24 fps which could later be converted to one or more different output formats (now widely known and implemented as "24P"). It was at this time (August 30, 1994), however, that Ken Washino and Barry Schwab filed their patent application with the United States Patent and Trademark Office which resulted in the '079 patent.

Washino and Schwab filed an original patent application on August 30, 1994, which issued as U.S. Patent No. 5,537,157 ("the '157 patent") on July 16, 1996. Following the issuance of their '157 patent, Washino and Schwab realized that they had not claimed in the '157 patent all of the inventions that they were entitled to claim. Accordingly, on July 10, 1998, Washino and Schwab filed an application for a reissue patent. On April 15, 2003, the United States Patent and Trademark Office issued U.S. Patent No. RE 38,079 to Washino and Schwab with amended claims and with new claims ("the '079 patent"). Thus, Washino's and Schwab's patent has twice undergone the scrutiny of the United States Patent and Trademark Office.

U.S. Patent No. RE 38,079 will expire on August 30, 2014.

Washino and Schwab have filed additional claims in a continuation reissue patent application, which currently is pending in the Patent Office. Multi-Format expects that, if those claims issue in their present form, they will cover additional products and methods using the 24P format.

In their patent, Washino and Schwab describe how systems utilizing a 24 fps format operate. According to one example of their system, an input video program is received from either a camera, a conventional broadcast signal, a satellite signal, or a high bandwidth data network signal. If necessary, the input video program is converted to a digital format having no added redundant frames or fields.

The input video program is then converted to an intermediate format. This intermediate format has a frame rate of 24 frames per second and is

stored on a high capacity storage medium. The high capacity storage medium can be a computer hard disk drive, a magnetic disk, an optical disc, or a videotape. The video program that is stored on the storage medium may then be converted to an output format (NTSC, PAL, or an HDTV format) for playback on a television or a monitor.

When they filed their patent application in 1994, Washino and Schwab could hardly imagine how widely used their ideas would become. In addition to their use in DVD technology, Washino and Schwab's ideas are also currently being used by the film and video production industry in many products utilizing a 24 frames per second, progressive format -- the well-known "24P" format.

Recently, major video technology companies have recognized the importance and impact of 24P. Sony's marketing materials identify 24P as the biggest new television production technology since electronic newsgathering, over 20 years ago:

As recently as NAB 2000, worldwide members of the broadcasting and production community first saw the arrival of an all-digital 24P high definition camcorder. They also saw much more. They saw 24P studio cameras, companion 24P portable cameras, HD telekinesis with 24P interfaces, 24P editing VTR's, 24P switchers, on-line editors, off-line editors, projectors, studio monitors, and a wide range of 24P system peripherals. Most important, they saw that these products came from a broad array of professional equipment manufacturers. Something big had happened -- and it had happened in a very short space of time. The last time a new technology descended upon the television production landscape, and changed it forever, was the period of 1976-1980, when electronic newsgathering swept 16 mm motion picture film from the hundreds of television stations doing daily news.

-- Sony Corporation, *24P at Age One -- The Triumph and the Promise*, 2001.

Avid Technologies, Inc., the pioneer in non-linear content creation, similarly states that the teleportation industry is driving to make 24P the new universal format for all film and video content:

With new DTV formats expanding the world of content distribution, there is renewed interest in the oldest format in the industry: 24 frames-per-second progressive - 24P - the

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MULTI-FORMAT, INC.
LICENSING PROGRAM
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worldwide standard format for film. 24P has always held tremendous appeal because it simplifies digital editing of film or other 24 fps-originated content. Additionally, it holds other benefits, as film provides the highest resolution master for archiving purposes, and 24 fps-originated content requires less storage and processing power than 30fps material. The teleportation industry is driving to make 24P the new universal format for all film and video content, as it provides a common production format for multi-version, multi-format delivery.

-- Avid Announces Nonlinear 24P Technology, Business Wire, April 5, 1999.

It was only a matter of time for the video production industry to catch up with Washino and Schwab's pioneer patent. Now, the industry is using Washino's and Schwab's concepts in DVD's, cameras, editors, video transmission over the Internet and countless other devices and processes.

Multi-Format is confident that the '079 patent is valid over any prior art. Multi-Format has recently conducted a prior art search in an effort to confirm the validity of its '079 patent. Multi-Format asked a patent prior art searcher who advertises himself as the "patent buster" to "bust" the '079 patent, but he could not.

SALES OF DVD DISCS, DVD PLAYERS, AND PERSONAL COMPUTERS BY RETAILERS IN THE UNITED STATES INFRINGE THE '079 PATENT

This section describes the legal principles under which retailers who sell pre-recorded DVD discs in the United States to consumers are infringing the '079 patent. As shown below, both the methods and systems used to manufacture the DVD using replication techniques and the methods and systems used to view the DVD using DVD players literally meet all of the limitations of exemplary claims 14 and 20.

Although retailers selling the DVD discs, DVD players, and personal computers do not themselves perform all of the limitations of the claims, they are contributing to and/or inducing the direct infringement by end-users of at least claims 14 and 20 of the '079 patent.

Sellers of DVD discs sell the DVD disc to the end-user with the knowledge that the DVD disc was made and will be viewed in accordance with claims 14 and 20 of the '079 patent. There is no use for the DVD disc other than to be played in a DVD player.

Sellers of DVD players and personal computers equipped with DVD drives advertise and instruct purchasers that they can use the DVD player or personal computer to view DVD discs.

Sellers of personal computers which are not equipped with a DVD drive but which have the ability to download video programs via the Internet advertise and instruct users that they can use the personal computer that they purchase to download, store, and view video programs via the Internet.

DVD technology and video via the Internet are made possible by the use of the 24P production format. Most DVD video discs originate with film (which has a 24 fps format), and such DVD video discs store the digital video information in a (compressed) 24P format. This makes perfect sense, because the 24 fps frame rate contains all of the original information, the progressive signal can be much more efficiently compressed than the NTSC-standard 60I signal (since it has no redundant fields), the 24 fps is 20% fewer frames to compress than NTSC's 30 fps, and video in a 24P format can be easily converted to many other formats for playback, including NTSC and PAL).

As demonstrated below, claims of the '079 patent cover the sales of DVD video discs and other storage formats utilizing 24 fps storage format.

The '079 patent is therefore essential to the lawful sale of DVD video discs.

Under the doctrines of contributory and inducing infringement, one can be liable for patent infringement even though one does not practice all of the limitations of a patent claim. According to 35 U.S.C. § 271(c), one is liable for contributory patent infringement under the following circumstances:

§ 271(c) -- Whoever sells a component of a patented machine, manufacture, combination, or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted to use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial non-infringing use, shall be liable as a contributory infringer.

Further, according to 35 U.S.C. § 271(b), "whoever actively induces infringement of a patent shall be liable as an infringer."

For there to be either contributory infringement or inducing infringement, there must be direct infringement by another person. As shown below, with respect to claims 14 and 20 of the '079 patent, the end-user (the person viewing the program stored on the DVD disc) is the direct infringer of these claims.

The end-user is a direct infringer of claim 14, even though the end-user himself does not operate every element of the claimed system. By operating the final element of the claimed system, the end-user is using the claimed system, and therefore is a direct infringer under 35 U.S.C. § 271(a) (one is liable for direct patent infringement if they make, use, or sell a patent invention without the authority of the patent owner).

The end-user is also a direct infringer of claim 20, even though the end-user does not perform every step of the claimed method. By performing the final step of claim 20, and by having the DVD replicator perform the other steps of the claim on the end-user's behalf, the end-user is a direct infringer under 35 U.S.C. § 271(a). See, e.g., Marley Mouldings Limited v. Mikron Industries, Inc., 2003 U.S. Dist. LEXIS 7211, 66 U.S.P.Q. 2d 1701 (April 29, 2003); Cordis Corporation v. Medtronic Ave, Inc., 194 F. Supp. 2d 323, 349 (D. Del. 2002); Avery Dennison Corporation v. UCB Films, 1997 U.S. Dist. LEXIS 13594 (N.D. Ill. 1997).

It is our understanding that the manufacture of pre-recorded DVD discs begins with a DLT (Digital Linear Tape) which includes the video program to be stored on the DVD disc in a digital, MPEG-2 compressed format having a frame rate of substantially 24 fps (having no redundant fields or frames). From the DLT, the manufacturer creates a glass master using a laser recording device (a first processor), thereby converting the video program from the DLT format to an intermediate production format on the glass master having a frame rate of substantially 24 fps. The video program in its intermediate production format is transferred from the glass master to the DVD disc (a removable high capacity storage medium), thereby storing the video program in its intermediate format on the DVD disc.

After bonding, printing, and quality control checks of select DVD discs, the DVD disc is packaged and eventually transferred to a retailer who sells the DVD disc to an end-user. The end-user, who owns a DVD player, then places the DVD disc into the player, where the program is read from the disc and is converted (using a second processor) into an NTSC signal at substantially 30 fps for viewing on a television.

Thus, when the end-user views a pre-recorded DVD disc using their DVD player, the end-user is a direct infringer of claims 14 and 20 of the '079 patent, because the end-user is using the claimed system and method.

The DVD retailer who sold the DVD disc to the end-user is contributing to the end-user's direct infringement of claims 14 and 20 of the '079 patent. The pre-recorded DVD disc is a material component of claims 14 and 20 -- it is an element of the claim, it stores the program in its intermediate production format, and it is used when converting the program to its output format. We know of no substantial non-infringing use for a pre-recorded DVD disc -- its only utility is to store video information in a format that is capable of being played back using a DVD player. Lastly, DVD retailers have been placed on notice by Multi-Format that their sales of DVD discs contributes to infringement of the '079 patent by end-users. Thus, by selling the DVD disc to the end-user, DVD retailers are contributing to the direct infringement of claims 14 and 20 of the '079 patent by the end-user pursuant to 35 U.S.C. § 271(c).

The retailer who sells a DVD player or a personal computer equipped with a DVD drive is inducing the end-user's direct infringement of claims 14 and 20 of the '079 patent. The most important use of the DVD player and one important use of the personal computer equipped with a DVD drive is to play back DVD discs. The retailer selling these products

advertises and instructs users about these important uses and knows that users will use these products to view DVD discs.

The analysis is similar for personal computers which are equipped with DVD drives and those which are not equipped with a DVD drive but which have the ability to download video programs via the Internet. Video programs are widely available via the Internet, including full length feature films (e.g., available on Movielink or CinemaNow). These video programs are stored on a video server in a format having a frame rate of substantially 24 fps. When a user selects transmission of such a video program via the Internet, the video program is first packetized into a TCP/IP format and then transmitted over the Internet to the user. The video program in its TCP/IP format, having a frame rate of substantially 24 fps is therefore an input video program having no added redundant fields or frame.

Upon receipt by the user's personal computer, the video program is stripped of its TCP/IP headers, converted by a processor into a file having either a Windows Media, Real, or Apple Quicktime format and having a frame rate of substantially 24 fps, and stored on the hard disk drive of the personal computer. When the user wishes to view the video program, the personal computer accesses the video program from the hard disk drive and, using a processor, manipulates the video program into an output format (PC monitor in VGA out or DVI out video) for viewing on the computer monitor.

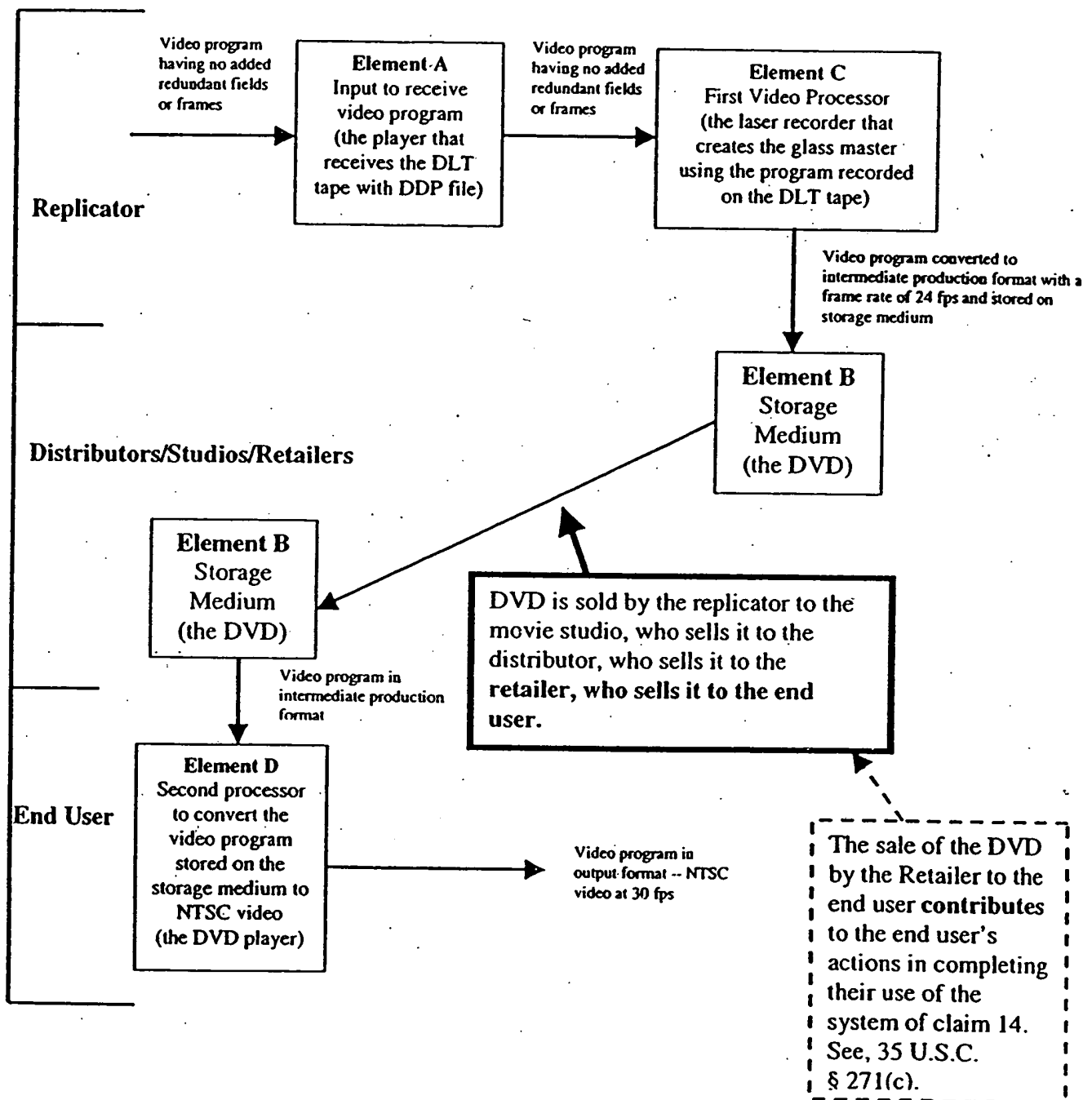
The retailer who sells such a personal computer is inducing the end-user's direct infringement of claim 20 of the '079 patent. One important use of such a personal computer is to download and view video programs from the Internet. The retailer selling these products advertises and instructs users about these important uses and knows that users will use these products to download and view programs from the Internet.

The following diagrams show the application of claims 14 and 20 of the '079 patent to the process of DVD video disc replication, sales, and play back described above and show that the end-user is a direct infringer of these claims and that the retailer who sells the DVD, DVD player, or personal computer (with or without a DVD drive) to the end-user is a contributory infringer and/or inducing infringer of these claims.

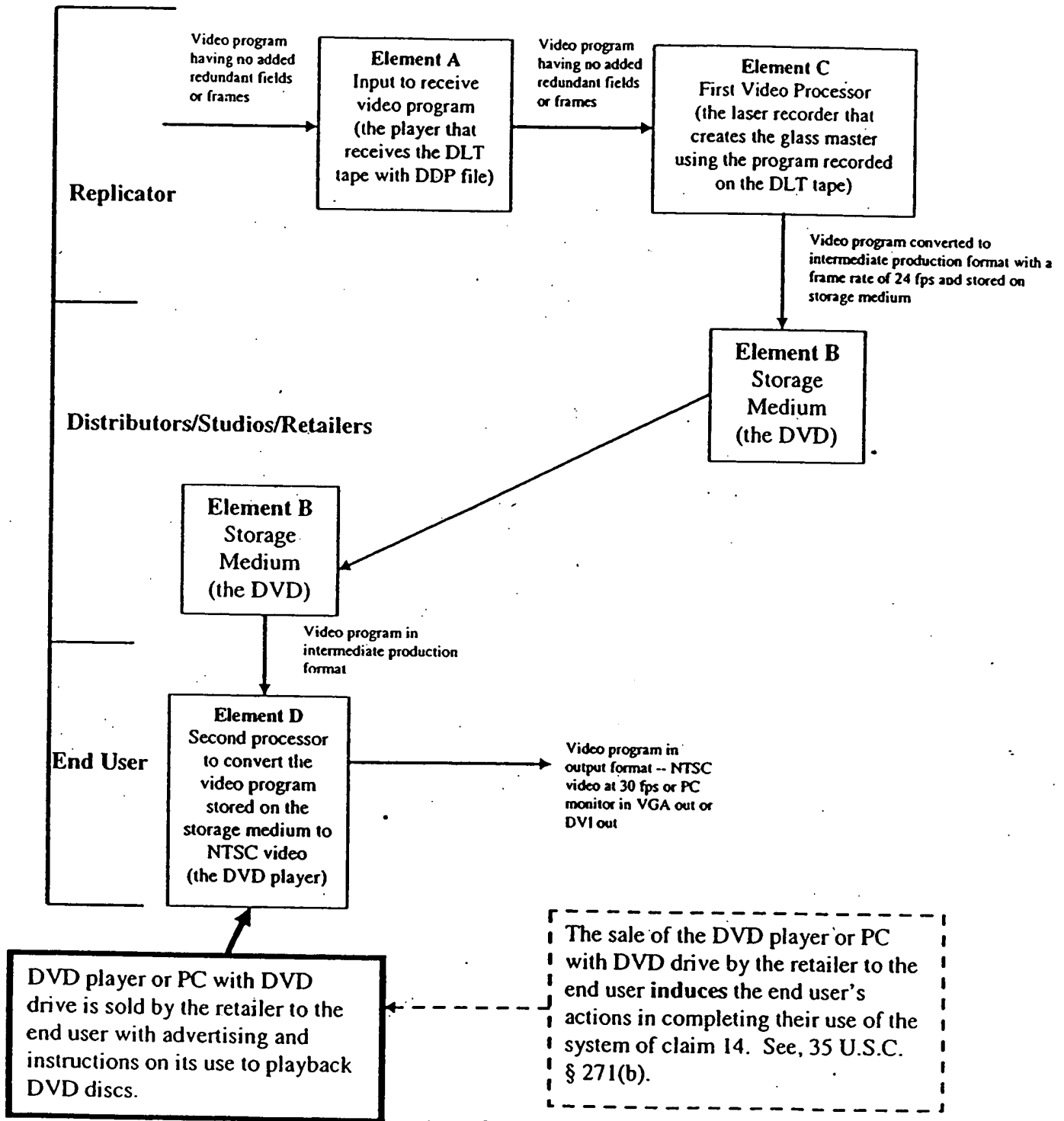
CLAIM 14 OF THE '079 PATENT

14. A multi-format audio/video production system configured for use with an operator input and color display, the system comprising:
- [A] an input to receive a video program having no added redundant frames or fields;
 - [B] a removable high-capacity video storage medium; and
 - [C] a first video processor operative to convert the video program into an intermediate production format, having a frame rate of substantially 24 frames per second (fps), for storage on the removable medium; and
 - [D] a second video processor operative to convert the program in the intermediate production format into one or more of the following output formats, either directly from the input or from the removable medium:
 - NTSC at substantially 30 fps,
 - PAL/SEAM at 25 fps,
 - HDTV at 24, 25 or substantially 30 fps, and
 - film-compatible video at substantially 24 fps.

DIAGRAM OF REPRESENTATIVE INFRINGEMENT OF CLAIM 14 BY DVD RETAILERS



**DIAGRAM OF REPRESENTATIVE INFRINGEMENT OF CLAIM 14
BY RETAILERS OF DVD PLAYERS OR PERSONAL COMPUTERS
EQUIPPED WITH A DVD DRIVE**

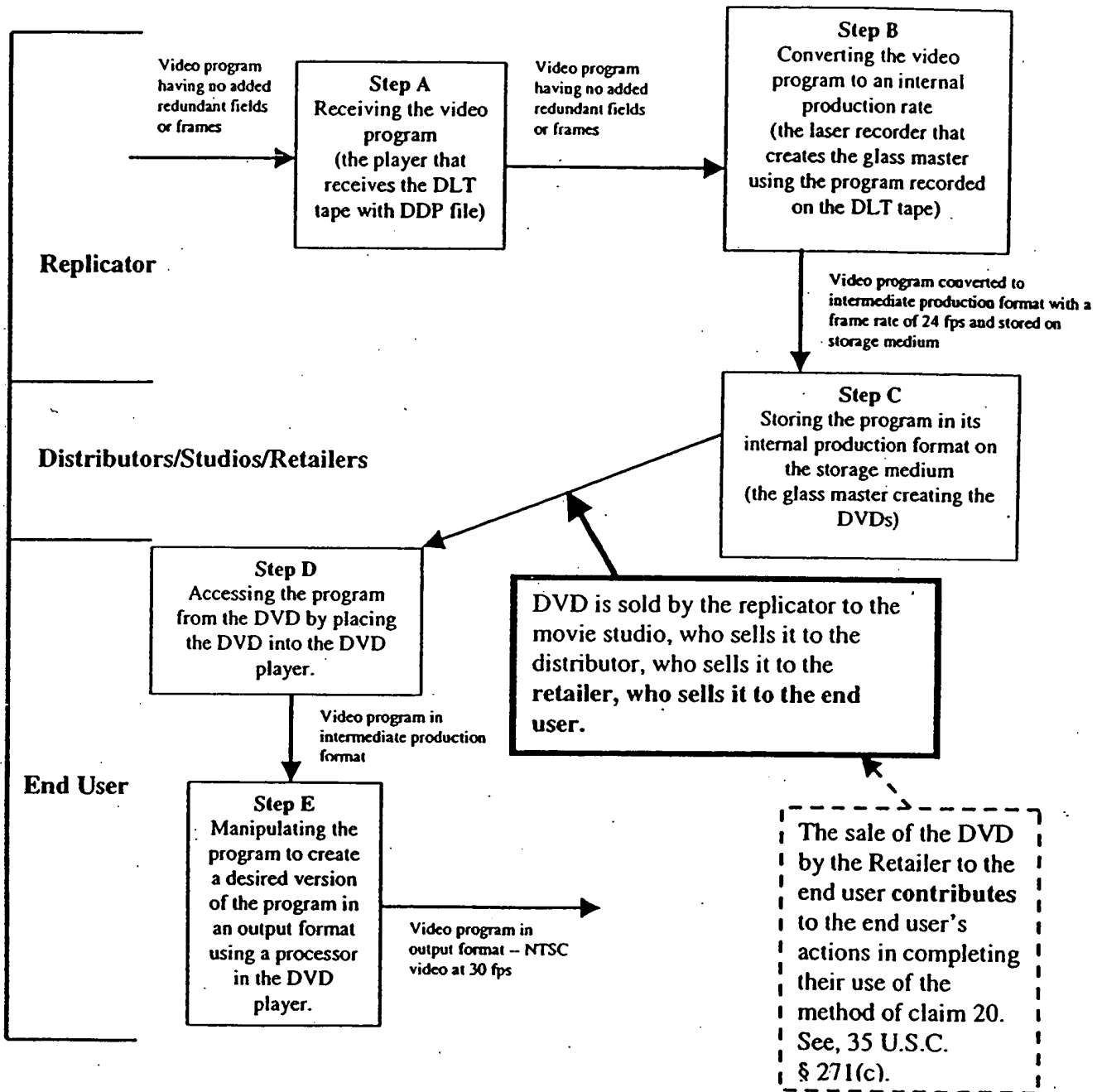


CLAIM 20 OF THE '079 PATENT

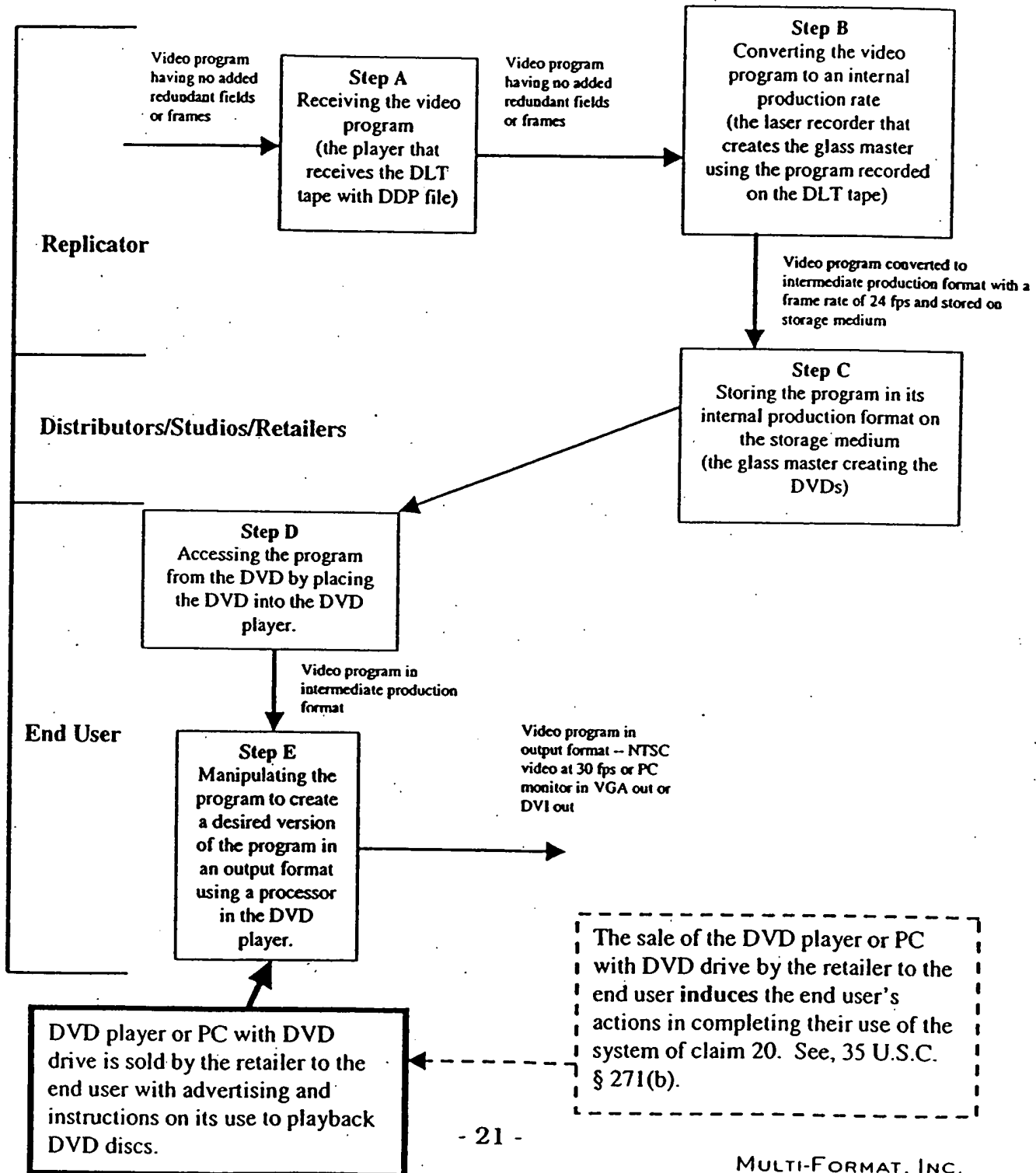
20. A method of processing a video program, comprising the steps of:

- [A] receiving an input program having an audio component and a video component without any added redundant frames or fields;
- [B] converting the video component of the input program into an internal production format having a frame rate of substantially 24 frames per second (fps) and an image dimension in pixels, when the program is not received in such a format;
- [C] providing a high-capacity digital audio/video storage medium, and storing the program in the production format;
- [D] accessing the program in the production format from the high-capacity storage medium; and
- [E] manipulating the program to create a desired version of the program in an output format having a frame rate greater than or equal to the frame rate of the production format.

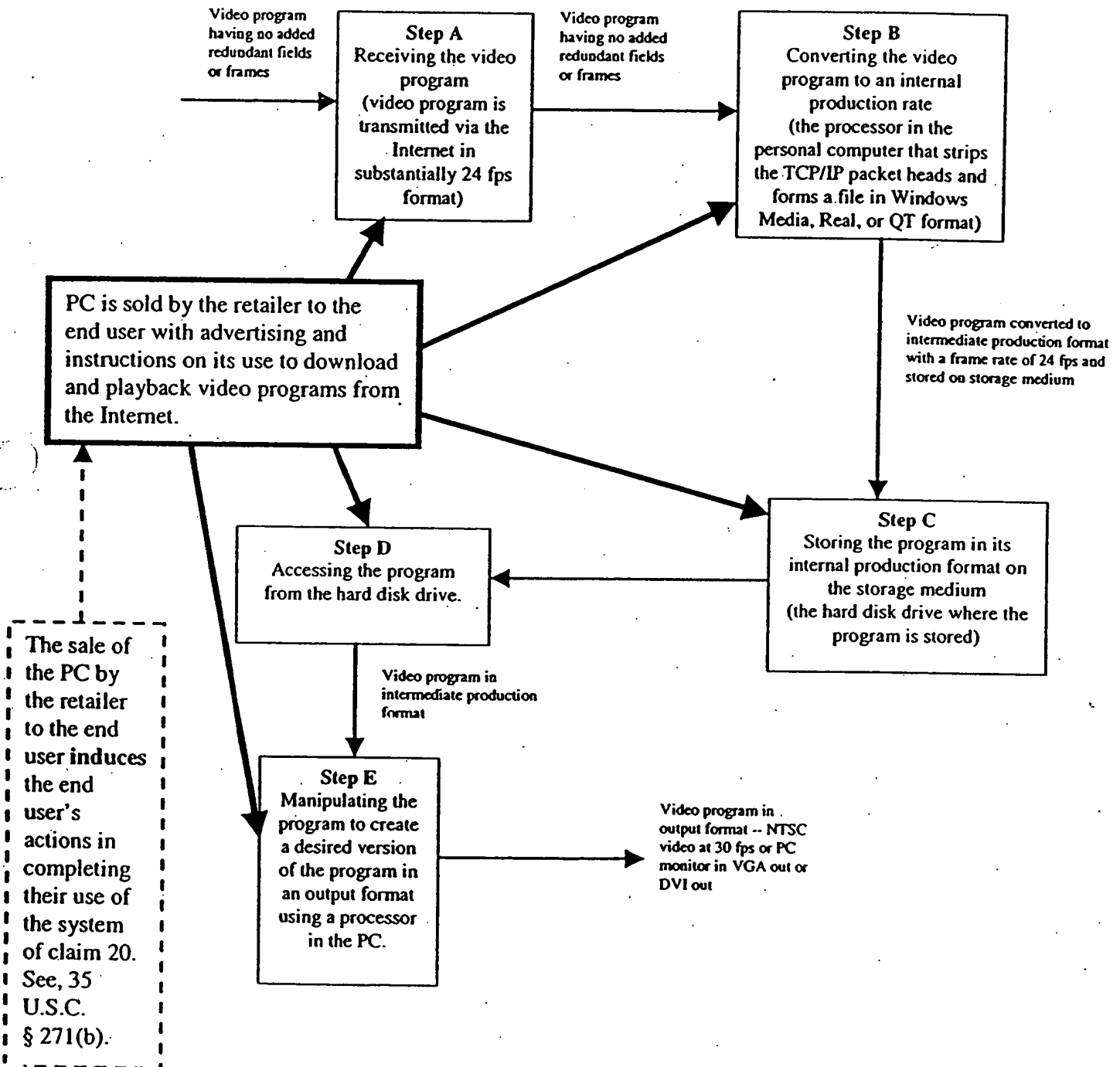
DIAGRAM OF REPRESENTATIVE INFRINGEMENT OF CLAIM 20 BY DVD RETAILERS



**DIAGRAM OF REPRESENTATIVE INFRINGEMENT OF CLAIM 20
BY RETAILERS OF DVD PLAYERS OR PERSONAL COMPUTERS
EQUIPPED WITH A DVD DRIVE**



**DIAGRAM OF REPRESENTATIVE INFRINGEMENT OF CLAIM 20
BY RETAILERS OF PERSONAL COMPUTERS WITH OR WITHOUT
A DVD DRIVE WHICH ARE CAPABLE OF DOWNLOADING
VIDEO VIA THE INTERNET**



A BUSINESS RESOLUTION MULTI-FORMAT'S PROPOSED LICENSE AGREEMENT

Multi-Format is interested in licensing its '079 patent and all related patents to retailers who are selling pre-recorded DVD discs in the United States, to retailers who are selling DVD players in the United States, to retailers who are selling personal computers equipped with a DVD drive, and to retailers who are selling personal computers which do not have a DVD drive, but which have the ability to download video programs via the Internet, at the following proposed, early adopter rates:

- 3 cents per DVD disc sold and 2 cents per DVD disc rented in the United States;
- \$2.00 per DVD player sold in the United States;
- \$3.00 for each personal computer equipped with a DVD drive sold in the United States; and
- \$2.00 for each personal computer sold in the United States not equipped with a DVD drive but having the ability to download video programs via the Internet.

Multi-Format believes that these are favorable rates, being much less than Multi-Format can ultimately seek and obtain following patent infringement litigation. Further, Multi-Format is conditionally releasing retailers who take a license for all damages which accrued prior to the Effective Date of the Agreement.

Multi-Format is confident in its likelihood of success of proving its patent infringement claims in litigation. Patent litigation is expensive. Therefore, Multi-Format prefers a business resolution to this matter. If patent licenses are not executed by October 15, 2003, Multi-Format will formally serve its lawsuit and commence litigation. At that time, Multi-Format will only offer licenses at greater royalty rate amounts.

Accompanying these materials are three proposed License Agreements for your review:

1. DVD Retailer License Agreement;
2. DVD Player Retailer License Agreement; and
3. Personal Computer Retailer License Agreement.

The DVD Retailer License provides your company with limited, non-exclusive rights to use Multi-Format's U.S. Patent No. RE 38,079 to sell and lease DVD, DVD-ROM, and CD-ROM discs wherein the stored video information has a format having a frame rate of substantially 24 fps.

The DVD Player Retailer License provides your company with limited, non-exclusive rights to use Multi-Format's U.S. Patent No. RE 38,079 to sell and lease DVD players, whether or not combined with a television or playback device.

The Personal Computer Retailer License provides your company with limited, non-exclusive rights to use Multi-Format's No. RE 38,079 to sell personal computers having the ability to download video programs via the Internet, whether or not the personal computer is equipped with a DVD drive.

Multi-Format has an additional U.S. reissue continuation patent application currently pending which also covers DVD and DVD-ROM video discs. Each proposed License includes this pending patent application, and all other similarly related applications which may later be filed if they issue as patents, and thus any patents which issue from these applications will also not prevent you from continuing your replication activities.

Each License is a worldwide license, so Multi-Format's related foreign patent applications, when they issue, will not prevent your company from continuing its sales activities.

Each License will terminate upon the expiration of the last-to-expire licensed patent. The License therefore will extend to at least August 30, 2014, when U.S. Patent No. RE 38,079 will expire. Therefore, none of the Multi-Format patents will prevent you from continuing your sales activities.

If you do not execute a License prior to October 15, 2003 covering all of your sales activities, Multi-Format will commence patent litigation. If it is successful in the litigation, Multi-Format will be able to obtain royalties for past and future infringing activities from your company, at rates substantially greater than those being offered under the terms of the License, and will be able to obtain an injunction, preventing you from selling DVD discs, DVD players, and personal computers in the United States.

To execute the License, please do the following:

1. Fill in the legal name of your company and the contact information indicated in the opening paragraph of the Agreement and in Section 7.6 on page 11;
2. Sign and date the Agreement on page 12; and
3. Return the signed Agreement to Multi-Format's attorneys:

Roderick G. Dorman, Esq.
Alan P. Block, Esq.
Hennigan, Bennett & Dorman LLP
601 S. Figueroa Street, Suite 3300
Los Angeles, California 90017

4. Multi-Format will return a fully executed copy of the Agreement to you for your files.

If you have any questions about anything that is discussed in these materials or about the License Agreement, please do not hesitate to contact Mr. Dorman or Mr. Block by phone at (213) 694-1200, by fax at (213) 694-1234 or by e-mail at dormanr@hbdlawyers.com or blocka@hbdlawyers.com.

WHAT IS MULTI-FORMAT?

Multi-Format, Inc. is a digital media technology development company with offices in Dumont, New Jersey. Multi-Format owns a broad portfolio of foreign and domestic digital media patents. Multi-Format does not manufacture or market any products. Rather, it licenses its proprietary technology. Multi-Format also conducts research and development in the digital media space for the purpose of creating additional, important, patented inventions.

Ken Washino founded Multi-Format in 1989. Even before Ken founded Multi-Format, he dedicated himself to the study of television and video markets and to the development of the important and novel inventions now represented by the Multi-Format patents and applications. After attending engineering school in Japan, Ken worked as an engineer in film and video production, was a camera design engineer and a broadcast field engineer for Ikegami, and was the Executive Vice President and Chief Operating Officer of Future Productions, Inc., a large video duplication company. Ken has an in-depth working knowledge of film production, video production, television production, and video duplication, and he is an experienced manager of engineering and manufacturing operations. Ken is the principal inventor of each patent in the Multi-Format patent portfolio.

Barry Schwab who began his formal collaboration with Mr. Washino in 1992, is a graduate of MIT and Brown University and is a former Director of Engineering for Bell & Howell (later Rank, now Deluxe) Video and CBS/Fox Video. Barry also was the Vice President of Technology for Technicolor, Inc. Mr. Schwab has over 30 years of experience in the video engineering field, and is a named inventor on 10 patents related to replication, anti-piracy systems, secure computer networking and identification systems, and video recording systems, including those in which he participated with Mr. Washino.

Fred Fehlauer has been a principal business advisor to Multi-Format for the past five years. He is a graduate of the University of Wisconsin-Milwaukee and of Michigan State University. Fred was formerly Executive Vice President of Technicolor Video, and prior to that was Sr. Vice President and General Manager of CBS/Fox's Video Services Division.

Multi-Format also employs business strategists and management consultants, and has retained the Los Angeles-based litigation law firm of Hennigan, Bennett & Dorman LLP and, in particular, the head of its Intellectual Property Litigation Department, Roderick G. Dorman, to advise Multi-Format in its patent creation and its patent enforcement matters.

MULTI-FORMAT'S PATENT PORTFOLIO

Multi-Format currently has a patent portfolio consisting of eight (8) United States patents and one (1) European patent. Multi-Format has additional pending United States patent applications and sixteen (16) pending foreign patent applications.

Multi-Format has broad, essential, patent coverage in the following important digital media technologies:

- Universal format (24 fps) multi-format audio-video production systems (U.S. Patent No. RE 38,079; U.S. Patent No. 5,999,220; U.S. Patent No. 6,370,198).
- DVD replication (U.S. Patent No. RE 38,079);
- DVD and DVD-ROM video discs (U.S. Patent No. RE 38,079);
- Stand alone DVD players and personal computers equipped with DVD players (U.S. Patent No. RE 38,079);
- Video game consoles capable of 24 fps file playback from CD-ROM video games (U.S. Patent No. RE 38,079);
- Personal computers capable of 24 fps file downloading and playback (U.S. Patent No. RE 38,079);
- Digital televisions receiving and storing in 24 fps format (U.S. Patent No. RE 38,079);
- Personal video recorders (PVR's) capable of receiving and storing television signals transmitted in 24 fps format (U.S. Patent No. RE 38,079);
- 24 fps video file downloading and playback (U.S. Patent No. RE 38,079; U.S. Patent No. 5,999,220; U.S. Patent No. 6,370,198);
- Digital cinema (U.S. Patent No. RE 38,079);
- Dual format digital archiving and video production systems (U.S. Patent No. RE 37,342);
- PC-based video production systems for multi-camera systems (U.S. Patent No. 5,450,140);

- Video monitoring and conferencing systems (U.S. Patent No. 5,625,410); and
- Video field production systems (U.S. Patent No. 5,325,202).

Multi-Format has pending patent applications, including pending continuation applications of RE 38,079 and RE 37,342, which, when issued, should provide Multi-Format with additional patent rights in these and other digital media technologies.